Banking

51 g 1908

Sl No 1-2

G. R. S. 58

Previous references.

B. Beng. 05-851-2 Banks/12-05.

1908-9

(Banking)

File No. 51-08

Serial Nos. 1-2

Later references.

B. Feb/12-851-2-B16-11.
7 Apl/12 851 8&9 B6-11
JK6 132-66. 1+2

GENERAL AND REVENUE SECRETARIAT.

Serial Nos. 1—2

Part B. for August 1909

SUBJECT.

Directing that Agricultural Banks should not invest their reserve on landed property.

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1) From the Inspector of Agricultural Banks
No. 6622/55 & 19.6.09.
Solicits orders as to whether an Agricultural Bank can invest its surplus in landed property & its improvement.

2) To the Inspector of Ag. Banks,
" Deputy Commrs of Districts.
No. H 1091-9 & 16.8.09.

GPB.-8,000-7-4-07

Directs that the reserve should not be used for acquiring landed properties

GENERAL AND REVENUE SECRETARIAT.

(Banking

NOTES.

File No. 57

FILE HEADING.

Agricultural Bank at Kanyanga

From The Inspector of Agrl Banks.

No. 642/33 Dated 19-4-09 Received 20-4-09

Diary No. 3810 | Enclos. Nil Spare Copies | Serial No. 1

BRIEF ABSTRACT OF LETTER.

Solicits orders whether an Agrl Bank can invest its surplus in landed property & its improvement

NOTES AND ORDERS.

The Agrl Bank at Kanyanga has invested a portion of its reserve in landed property is working it The Registrar takes objection to this mode of investing the Banks reserve

NOTES—First sheet

GPB—30,000 - 3-4-07.

Serial No.

& further contends that acquiring prospecting rights over lands & the amount money in cultivating them is beyond the province of an institution of the kind. It is further stated that the reserve was contemplated to serve as capital of the Banking institution when the Govt loan was repaid or withdrawn & lastly he is of opinion that under section 56 of the Articles of Association a Bank cannot use its reserve for investments of the kind now in question.

'It would seem that the only ~~reserve~~ object of a reserve fund is to meet unforeseen losses & to serve as a guarantee for loans & deposits & that its investment should therefore be perfectly sound.' In that case it can never be treated as capital proper

Note—Contn sheet.

Serial No.

of a Bank & the money used in giving loans. Govt have on various occasions in summing inspection reports of Agrl Banks insisted that the Reserve should be invested in the Govt Savings Bank as the only form of sound investment of the Reserve Fund – ready to meet any sudden or unforeseen fall. The conditions of an Agrl Bank not being the same as an urban Bank - there is less probabilities of any simultaneous demands for the return of deposits. The soundness or otherwise of a rural institution of the nature of an Agrl Bank is supposed to be perfectly well known to the Depositors in such institutions & a panic on any scale to wreck a sound institution

GPB—50,000—13-5-08

Serial No.

is improbable in the nature of things. If the Bank was unsound in working it would be impossible for it to attract any deposits at all. Hence the Reserve of an Agril Bank is to benefit the Bank mainly by adding to the security which it has to offer its depositors & so enable it to borrow on more advantageous terms. Hence the more a Bank can accumulate of reserve the more chance for its successful working. The question now arises whether under conditions in which a panic of the kind resulting in simultaneous withdrawals of deposits are not likely investment of a portion of the a Bank's reserve in such tangible form of security as land is not

Wolff's Village Banks page 18 Para 7

GPB—50,000—18-5 08

Serial No.

is not desirable in the best interests of the institution itself. That possession of land by a Bank as a portion of its reserve is more likely to create an impression on the minds of the people than perhaps the same amount invested in York Savings Bank. In the present case - the members after proper deliberation bought the lands of one of their indebted members for 2001 dollars & have resolved to cultivate it ~~not~~ it cannot be to incur loss thereby - ~~Director~~ In enunciating the principles underlying the constitution of these Banks, 'agricultural operations which with ordinary care may be expected to yield profits' is stated to be a proper object for granting loans. This may be held applicable in part to the present case. As to the applicability of

Key W

GPB -50,000—17-3-87

G. R. S. 12]
General and Revenue Secretariat.

B File No. 57 of 1908

16

Serial No.

Heef J

art 56 of the articles of Association. the members having fully repaid the Govt advance & having a reserve of over 5000 Rs/- & most likely calls of depositors they cannot be held as having infringed any provisions contained therein, granting that the members cannot use the reserve in granting loans

Sd/-
27/4
Init
with Ops

Please see Heef &
N/L
4/5.

I remember having notes on the general question of the reserve funds of Agricultural Banks in connexion with certain proposals made by the Rev Commr for the alteration of the articles of association of those Banks. Please put up the file I refer to -

Init
21-5-9

NOTE—Contn sheet.

UPB—50 000—17-3-07

Serial No. 4

The file required has been put up. The letter under disposal does not state the total amount of assets and liabilities of the Ranjangud Agricultural Bank. Without a knowledge of the ~~Amount~~ Scale of transactions carried on by the Bank and of the nature & extent of its liabilities, it is impossible to form any opinion as to whether the balance of Rs 5000 & odd is required to be held in Cash or whether it may, without any danger or inconvenience, be invested in rather permanent & speculative forms as land.

2. ~~(Ninety)~~ Usually, banks have a Cash reserve ~~of from~~ equal to 30 & 20 per cent of their ~~(liab)~~ amount of their liabilities ~~in Cash~~. But such a low figure may not be enough in the ~~(Case)~~ Case under Consideration as almost all the loans will be more or less for a Comparatively long period e.g. 1 year or atleast 6 months. ~~(Therefore)~~. But except the loans taken by the Bank, ~~other~~ dates for repaying which

Serial No.

are definitely known, the other liabilities (~~contra~~) have to be met on demand, ~~even~~ and so a large proportion of these must be held in Cash or in Govt. Savings Bank Deposits.

6 3. A draft is put up calling for specific information regarding the assets & liabilities of the bank, as the same is not available in the Office

Asst.
17.5.09.

The file referred to in my note of 17.5.9 has not been put up since 17.5.9

7 The enquiry suggested in note of 17.5.09 seems to be unnecessary.

2. Please See para 4 of my note of 12.11.08 on Banking file no 17 of 1908. In an Agricultural Bank the primary object of a reserve fund is to make good any loss arising from untoward circumstances and to serve as a guarantee to persons lending their money to the Bank and according to modern

NOTE—Contn sheet.

Serial No.

authorities like Mr. Wolff, even the employment of the reserve fund in making loans to members is allowable. To serve its purpose the reserve fund should be in cash or in forms easily converted into cash - To lock it up in an investment in land, with the attendent risks is inconsistent with the objects with which it is built up. The view taken by the Inspector seems to be correct and the Ranjungud Agricultural Bank may be directed to sell at the earliest possible opportunity the landed property purchased by it

Genl Secn) I would add
20/5/09 suggn
consistently with non-occurring material loss thereby

Desirn

21-5-09
20 5 09

10 The lands in question are apparently wet lands irrigated from river channels. If this be so, it is sure to fetch its price and a ready sale.

As

NOTE—Contn sheet.

Serial No.

As however the case is somewhat novel and an important principle is involved in it, the papers may be circulated to Councillors for favour of their opinion.

Circulate

247.

11 The land may be good and unimpeachable security for the money and may command a ready sale. But the acquisition of land & its management are outside the scope of the operations of an agricultural Bank.

12 The Nanjangud agricultural Bank has repaid the Capital and accumulated a handsome reserve, a portion of which is invested in land
The reserve should as stated by the Registrar of Co operative Societies be in easily realizable

Serial No.

form - According to Raiffeisen principles the reserve cannot be made use of even for loans though such an eminent authority as Mr Wolff is in favor of it - Under any circumstances the purchase of land from the reserve cannot be countenanced The Agricultural Bank however acted under the best of motives and maybe instructed to sell the land to the best advantage as a favorable opportunity and realize the value thereof.

13/6/08

13 It is generally said that a Corporation ~~Co~~ like this cannot invest its money in immovable property (or indeed in any other property) when not specially empowered to do so in its articles of association I cannot trace the exact authority for this position. I am not sure if ~~the art~~ 56 of the articles of Association (I presume that

NOTE—Contn. sheet.

GPB—50,000—13-5-08

G. R. S. 12]
General and Revenue Secretariat.

Bankg File No. 51 of 1908

Serial No.

this bank has not varied the Standard form) does or does not create a bar to the bank investing money in lands. I would suggest that the opinion of the Govt Advocate may be obtained

23/6/09

Brn. Please consult & forward

14/6

R.O.R. 129-08
26-VI-09

Forwarded to the Govt Advocate for favour of opinion.

M M Narasimhan
for Secy
24.6.09

R.O. 52.
IV 47

14

A Company registered under the Indian Companies Act must confine its operations to the kind of transactions named in its memorandum of association. The Directors will be persoanlly responsible to the ---- Company for the loss arising from acts done beyond the scope of the memorandum of association. (I.L.R. Bom. 119)

The Agricultural Banks in Mysore are, I believe, registered under the Company's Regulation and have adopted the memorandum of association printed and

NOTE—Contn. sheet.

GPB—50,000—13-5-08

Serial No.

supplied by Government. According to this document the Banks can only lend money to "their members out of funds raised by their joint credit". If in carrying on these transactions it becomes necessary to buy up the property of the debtors, the Directors or Agents have an implied authority to do so. But the purchase of any landed estate independant of the loan transactions, will be ultravires and illegal.

16 A distinction may be drawn between the utilisation of the capital of an Agricultural Bank in purchasing lands and the investing of its reserve fund in immoveable property. The administration of this fund is governed by the rules laid down in the articles of association of the Company. (vide article 74 of table A of schedule I of the Company's Regulation and para 56 of the articles of association of agricultural Banks.

17 As the Reserve Fund is intended for the recoupment of any loss that may be sustained in the course of business, it is essential that it should be in a shape ready available for the purpose.

T. Narayana Rao
Govt adv
5.7.09

30 6 09
Submitted to Second Councillor
1158/

Note—Contn. sheet.

G.P.B.—30,000—13-5-08

Serial No.

An order may be passed that the Bank is not debarred from disposing of the property.

The Bank seems to have acquired the property from a debtor as the best way of collecting the debt. The purchase cannot be said to be ultra vires. But as the reserve is meant to be kept for a definite purpose the bank should dispose of the lands as early as it can do so without undergoing loss & convert it into cash

5/7/09

Dewan)

1525 7.7.09

7.7.09

C813 7/7/09

Draft accordingly giving say six months for the conversion into cash

Draft submitted

G. R. S. 12]
General and Revenue Secretariat.

3 File No. 57 of 1908

Serial No.

Draft Subd for approval.
Mrk
22-7-09

Genl Secy

Draft revised. Please ~~take~~ make
clean copy & submit to Secy
Subd with fair draft
23-7-09
Mrk
23/7/09

Draft
23.7
Mrk
27(7 books)
1758/26-7-09

Draft approved by Mr Deputy
Secy
28/7/09

Mrk
6/8

2 To the Inspector of Agrl Banks
& the Dy Commr of Dts
Ltr No 1091-9 dd 16.8.09
states the reserve being made
for a definite purpose viz the
recoupment of losses that may
be sustained in the course of
business, it should be in a form
readily available & ~~from~~ Instd
that the land may sold early
in the financial year & converted into
money.

NOTE—Contn. sheet.

GPB—50,000—13-5-08

C 364
9 6 09

GENERAL AND REVENUE SECRETARIAT

Council Matter.

SUBJECT.

Question whether an Agricultural Bank can invest its surplus funds in landed property.

CIRCULATED TO COUNCILLORS.

By Order,

Secretary to Government.

9th.....June.....1909

K. P. Puttanna Chetty, Esq.,
First Councillor.

Seen by the First Councillor.

H. V. Nanjundayya, Esq., M.A., M.L.,
Second Councillor.

Seen

817)

Office of the Registrar of Co-operative Societies in Mysore.

No. 642 / aB-50 Dated, Bangalore, 16th April 1909 / 19

From.

M. Shama Rao, Esq., M.A.
Registrar of Co-operative Societies
& Inspector of Agricultural Banks
in Mysore.

To.

K.S. Chendrasekhara Aiyar, Esq., B.A. B.L.
Secretary to the Government of Mysore,
General & Revenue Departments,
Bangalore.

Sir,

I have the honour to state that the Agricultural Bank at Nanjangud in the Mysore District has repaid Rs. 25,870/- out of Rs. 26,000/- which it obtained as a loan from Government in the year 1898, and the balance to be paid is Rs. 130/ According to the balance sheet for the half year ending December 1908, the surplus amount in the Bank was Rs. 5,354-10-3.

2. Venkatramana Upadhyaya, Agent of the Bank, was in arrears to the Bank to the extent of Rs. 1,356-4-0. He pleaded his inability to pay off the arrears in cash and applied to the Bank that in consideration of his having managed the affairs of the Bank for 10 years and shewn good profits, it should purchase the marginally noted properties already hypothecated to the Bank for the loan obtained by him and enable him to liquidate his pri-vate debts besides the dues to the Bank. At a General Meeting of the members held on 16th October 1908 at which 45 members were present, the proposal of Venkatrama Upadhyaya was accepted and a resolution was passed that the lands in question should be purchased for the Bank for Rs. 2,000/- and cultivated at the expens

Survey Nos. 459, 460, 462, 463 and 464 of Immavu village, Chikkayan Chatra, Hobli.		
Extent		Assessment
Ac	G	Rs. As. P
11	25	54 3 0

E 4p/14 5-3810

190

From M. Shama Rao, Esq., M.A.
Registrar of Co-operative
Societies in Mysore.

To
K.S. Chendrasekhara Aiyar, Esq. B.A.B.L.
Secretary to the Govt. of Mysore,
General and Revenue Deptts.

Dated, Bangalore, 16th April 1909.

Despatched 19

Received

General No. 642

No. AB-53

Enclosure No.

Soliciting the orders of Govt as to whether an Agricultural Bank can invest its surplus funds in landed property and its improvement.

---

of the Bank. The lands were accordingly purchased and their value Rs. 2,000/- was paid to Venkatramana Upadhyaya in the month of October 1908 and all his dues to the Bank were re--covered. These lands now form part of the assets of the Bank and their value is included in the surplus amount of Rs. 5,354-10-3 shewn in the last balance sheet of the Bank.

3. When the Agricultural Banks' scheme was introduced and several Banks were constituted, it was contemplated that these Banks which were merely loan institutions should within the period allowed by Government for the repayment of the Government loan, accumulate a decent Reserve Fund out of the profits earned during each year, which when the Government loan was fully repaid should serve as the capital for the Bank to carry on its transactions. The Nanjangud Bank has earned a good surplus no doubt but instead of using this for granting loans to the members it has invested a portion of it for acquiring landed properties to the Bank. I am doubt--ful whether institutions of this kind whose mission is to bring cheap credit within the reach of their members should be allowed to acquire proprietory rights over lands and in--vest money in cultivating them in the same way as a private land-holder would do. Temporarily a Bank may be forced to buy the lands of its members in satisfaction of its dues when the lands do not fetch in the public sale the full amount of the loan; but the case now mentioned is however different inasmuch as the Bank has deliberately become an owner of lands with all the risks incidental to the investment of the money in their improvement.

4. In these circumstances I solicit the orders of Government whether the Nanjangud Bank could be insisted upon to dispose of the lands which it has acquired merely to ac--commodate one of its members and invest all the surplus amount in granting cash loans to its members .

My

My own opinion is that under section 56 of the Articles of Association such institutions cannot use the Reserve Fund for investments of the kind now mentioned.

I have the honour to be,

Sir,

Your most obedient servant,

M. Rameshwara Rao,

Registrar, C.S.
& Inspector of Agl. Banks in Mysore.

Art. 56. The interest due on loans and deposits, the charges of establishment & the cost of contingencies shall be met from the interest levied on the different kinds of loans made by the Bank and from the entrance fee levied from the members on admission, as also from the fines referred to in para 54 above. The surplus shall form a Reserve Fund which shall not be divisible among the members, but shall, after meeting unforeseen losses, if any, go towards the reduction of the loans and deposits required for ~~the~~ carrying on the business of the Bank.

6 pays to Circle
Fair Draft

G.R.S. 28]

File No. 57
Serial No. 2

Diary No. of letter replied to 3870

Proceedings of the Government of His Highness he Maharaja of Mysore.

GENERAL AND REVENUE SECRETARIAT.

(Bangalore

the 190

READ—

Letter No 642/AB55 dt 16/19th April 09 from the Inspector of Agrl Banks

Date of issue 16 August 09

Signed by W Meuchenbuch

Here print letter in extenso.

No R 1091-9
dt 16th August 09

ORDER THEREON.—No.

From the facts stated above it appears that the Agrl Bank advanced the sum in question from one of its debtors as the best way of

SUBJECT

[illegible]

W Copies
WL 13/8/09

realising the debt. The
purchase cannot in
the circumstances
be said to be ultra
vires. But as the
reserve is meant
under article 5b of
the Articles of As-
sociation for a definite
purpose namely the recoup-
ment of losses that
may be sustained
in the course of
business, it is essential
that the same should
be in a shape readily
available for the pur-
pose. The Bank should
be accordingly called
upon to dispose of the
lands to the best
advantage at a
favourable opportunity
within six months of
the date of this order

G.R.S. 27]

GENERAL AND REVENUE SECRETARIAT.

(*Continuation Sheet draft form.*)

± realise the Value in cash

Secretary

To

The Inspector of Agrl Banks
by command
of Govr

MGCPB—30,000—5-4-05.

Proceedings of the Government of His Highness the Maharaja of Mysore, Financial (Banking), dated 16th August 1909.

READ—

Letter No. 642—A. B. 55, dated 16th—19th April 1909, from the Inspector of Agricultural Banks:

"I have the honour to state that the Agricultural Bank at Nanjangud in the Mysore District has repaid Rs. 25,870 out of Rs. 26,000 which it obtained as a loan from Government in the year 1898, and the balance to be paid is Rs. 130. According to the balance sheet for the half year ending December 1908, the surplus amount in the Bank was Rs. 5,354-10-3.

2. Venkatrama Upadhyaya, Agent of the Bank, was in arrears to the Bank to the extent of Rs. 1,356-4-0. He pleaded his inability to pay off the arrears in cash and applied to the Bank that in consideration of his having managed the affairs of the Bank for ten years and shown good profits, it should purchase the marginally noted properties already hypothecated to the Bank for the loan obtained by him and enable him to liquidate his private debts besides the dues to the Bank. At the general meeting of the members held on 16th October 1908, at which 45 members were present, the proposal of Venkatrama Upadhyaya was accepted and a resolution was passed that the lands in question should be purchased for the Bank for Rs. 2,000 and cultivated at the expense of the Bank. The lands were accordingly purchased and their value Rs. 2,000 was paid to Venkatrama Upadhyaya in the month of October 1908 and all his dues to the Bank were recovered. These lands now form part of the assets of the Bank and their value is included in the surplus amount of Rs. 5,354-10-3 shown in the last balance sheet of the Bank.

Survey Nos. 459, 460, 462, 463 and 464 of Immavu village, Chikkaiyan Chattra Hobli.

Extent.		Assessment.
A.	g	Rs. a. p.
11	25	54 3 0

4. When the Agricultural Banks scheme was introduced and several Banks constituted, it was contemplated that these Banks, which were merely loan institutions, should, within the period allowed by Government for the repayment of the Government loan, accumulate a decent reserve fund out of the profits earned during each year, which, when the Government loan was fully repaid, should serve as the capital for the Bank to carry on its transactions. The Nanjangud Bank has earned a good surplus no doubt but instead of using this for granting loans to the members it has invested a portion of it for acquiring landed properties to the Bank. I am doubtful whether institutions of this kind whose mission is to bring cheap credit within the reach of their members should be allowed to acquire proprietory rights over lands and invest money in cultivating them in the same way as a private land-holder would do. Temporarily a Bank may be forced to buy the lands of its members in satisfaction of its dues when the lands do not fetch in public sale the full amount of the loan; but the case now mentioned is, however, different inasmuch as the Bank has deliberately become an owner of lands with all the risks incidental to the investment of money in their improvement.

5. In these circumstances I solicit the orders of Government whether the Nanjangud Bank could be insisted upon to dispose of the lands which it has acquired merely to accommodate one of its members and invest all the surplus amount in granting cash loans to its members.

My own opinion is that, under Section 56 of the Articles of Association, such institutions cannot use the Reserve Fund for investments of the kind now mentioned."

Art. 56.—The interest due on loans and deposits, the charges of establishment and the cost of contingencies shall be met from the interest levied on the different kinds of loans made by the Bank and from the entrance fee levied from the members on admission, as also from the fines referred to in para 51 above. The surplus shall form a reserve fund which shall not be divisible among the members, but shall, after meeting unforeseen losses, if any, go towards the reduction of the loans and deposits required for carrying on the business of the Bank.

No. FL. 1091-9—B. 51-08-2, DATED BANGALORE, 16TH AUGUST 1909.

ORDER THEREON.—From the facts stated above, it appears that the Agricultural Bank at Nanjangud acquired the lands in question from one of its debtors as the best way of realizing the debt. The purchase cannot in the circumstances be said to be *ultra vires*. But as the reserve is meant under Article 56 of the Articles of Association for a definite purpose, namely, the recoupment of losses that may be sustained in the course of business, it is essential that the same should be in a shape readily available for the purpose. The Bank should be accordingly called upon to dispose of the lands to the best advantage at a favorable opportunity within six months of the date of this Order and realize the value in cash.

K. S. CHANDRASEKHARA AIYAR,
Secy. to Govt., Gen. & Rev. Depts.

To—The Inspector of Agricultural Banks.
The Deputy Commissioners of Districts.

Exd.—C. V

1909-10

GOVERNMENT OF HIS HIGHNESS
THE MAHARAJA OF MYSORE

FINANCIAL (BANKING)

PROCEEDINGS

Dated 16th August 1909

No. Fl. 1091-9 / B. 51-08-2.

Directing that the Agricultural Banks should not use their reserve funds for investment in landed property.

GPB—8·9·09—250

1909-10

GOVERNMENT OF HIS HIGHNESS
THE MAHARAJA OF MYSORE

FINANCIAL (BANKING)

PROCEEDINGS

Dated 16th August 1909

No. Fl. 1091-9 / B. 51-08-2

Directing that the Agricultural Banks should not use their reserve funds for investment in landed property.

GPB—3-9-09—250